

Hart Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Hart Public Schools

TABLE OF CONTENTS

Management's Discussion and Analysis	
Independent Auditors' Report.....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities.....	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	8
Statement of Fiduciary Assets and Liabilities.....	9
Notes to Financial Statements	10
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	26
Other Supplementary Information	
Other Governmental Funds	
Combining Balance Sheet	27
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	28

Management's Discussion and Analysis

As management of Hart Public Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- General Fund: Initial budget projections were based on a 2% decline in enrollment and \$50 less foundation allowance per student FTE. To offset the reduction in revenues the Board of Education reduced the workforce by 1.5 FTE secretaries, .75 FTE custodians. Two (2) full year secretaries were reduced to 48 weeks per year. With these variables the initial budgeted shortfall was a negative (\$153,635).

Our actual blended count came in higher than anticipated and state aid increased by \$116 per student FTE versus decreasing by (\$50). MPSRS rate went from 17.74% to 16.72% and workers' compensation was less than anticipated. The changes in these variables resulted in a positive change to fund balance.

- School Service Fund: This fund is made up of Athletics and Food Service.
 - Athletics: Expenditures came in higher than budgeted. Over-expenditures for transportation and supplies/materials were due to economic variables. General fund transferred an additional \$10,982 to athletics to cover these unavoidable costs.
 - Food Service: More federal revenue came in for student lunches than anticipated and expenditures were less than budgeted, causing a positive change to food service fund balance of \$30,340. Hart Public Schools is a rural low income area. Since the decline in the economy we have seen an increase in free and reduced meals. This came in even higher than the amended budget in May 2008.
- Capital Projects Fund: This fund is comprised of four (4) capital projects funds; one, that was developed for improvements made to the middle school; two, Durant was developed for the purchase of capital items such as school buses; three, for capital projects made for the district; and four, a sinking fund that was passed by the public body in November of 2007.
 - Capital Projects Middle School: There is a balance of \$1,040 left in this fund. This will be utilized in 2008/09.
 - Capital Projects Durant: These are categorical funds set earmarked for the purchase of items such as school buses for the district. Balance at the end of 2007/08 is \$94,476.
 - Capital Projects District: This is a fund developed by the Hart Board of Education for improvements and maintenance to buildings and grounds of the district. The Facilities Committee of the Board meets several times a year to review the district plan for improvements. A plan of action is in place and monitored by the committee and district administration to keep buildings/grounds safe and conducive for education. Fund balance at year-end is \$581,088.
 - Sinking Fund: This fund was approved for Hart Public Schools through community vote November of 2007. During 2007/08 there was \$262,800 collected for projects that meet the definition under PA 451 of 1976 as amended and clarified in a bulletin issued by the Local Audit and Finance Division of the Department of Treasury for School District Audits of Bonded Construction and of sinking funds in December 1997. To date the funds have been used for the construction of a new bus garage for the district. Balance left at June 30, 2008 is \$22,353.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary schedules and combining statements for non-major funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statements of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds and one agency fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 1999 debt service funds, which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. These funds include three capital projects fund and two debt service funds, a food service fund, and an athletic special revenue fund. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 5-8 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Hart Public Schools' programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-24 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 25-30 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$4,329,604 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

Sixteen percent (16%) of the District's net assets is restricted for future debt service payments while (38%) of District net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (16%) represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (30%) may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, for the District as a whole, as well as positive fund balances for its separate governmental funds.

Hart Public Schools' Changes in Net Assets

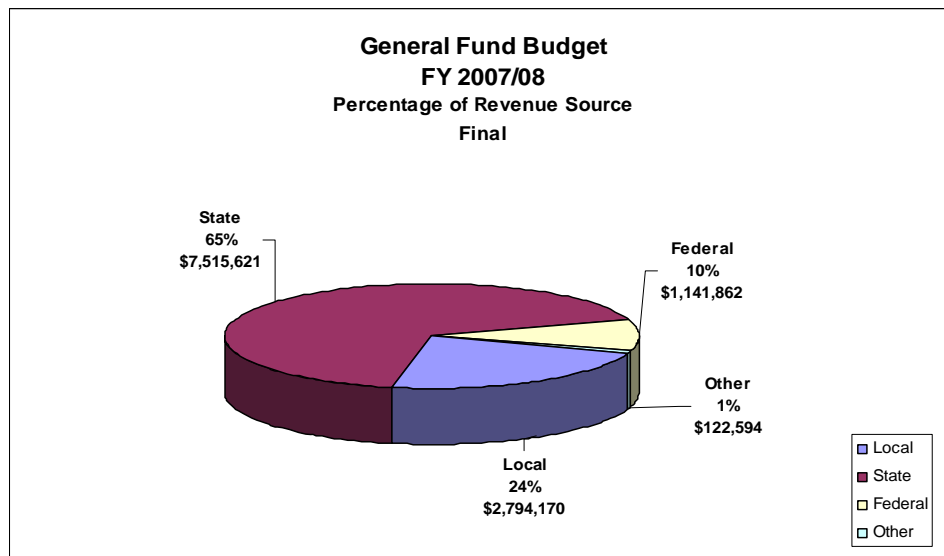
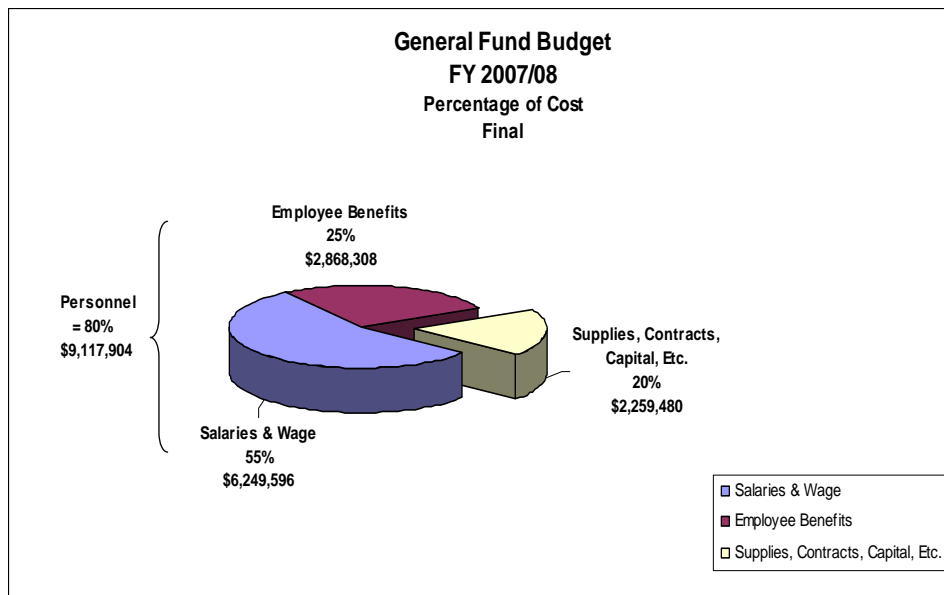
		Governmental Activities	
		2008	2007
Assets			
Current and other assets	\$	4,051,780	\$ 3,846,543
Capital assets, net		6,456,410	6,227,175
Total assets		10,508,190	10,073,718
Liabilities			
Current liabilities		1,853,105	1,245,896
Long-term liabilities outstanding		4,325,481	5,393,313
Total liabilities		6,178,586	6,639,209
Net assets			
Invested in capital assets, net of related debt		1,647,432	1,079,030
Restricted		1,345,922	1,341,644
Unrestricted		1,336,250	1,013,835
Total net assets	\$	4,329,604	\$ 3,434,509

		Governmental Activities	
		2008	2007
Revenue			
Program revenues:			
Charges for services	\$	332,672	\$ 355,963
Operating grants and contributions		2,606,157	2,555,726
General revenues:			
Property taxes - operations		2,579,919	2,397,835
Property taxes - debt service		479,705	694,237
Property taxes - sinking fund		262,125	-
Grants not restricted to specific programs		6,515,775	6,368,467
Universal Service Funds		-	59,028
Unrestricted investment earnings		96,355	82,107
Gain on sale of fixed assets		201,056	
Miscellaneous		3,425	35,540
Total revenue		13,077,189	12,548,903
Expenses			
Instruction		7,238,442	6,584,270
Supporting services		3,730,761	3,551,540
Community services		185,334	174,323
Food services		459,494	425,841
Athletics		335,335	276,100
Interest on long-term debt		232,730	299,731
Unallocated depreciation			341,281
Total expenses		12,182,096	11,653,086
Increase (decrease) in net assets		895,093	895,817

Net assets, beginning of year	3,434,511	2,538,692
Net assets, end of year	<u>\$ 4,329,604</u>	<u>\$ 3,434,509</u>

Governmental activities. Net assets increased by. Key elements of this increase are as follows:

- Government-wide financial statements present a financial picture based on full accrual accounting where all assets and liabilities in total; i.e. all capital assets, depreciation and long term debt. This is different than our fund financials which show short-term assets and liabilities. The statement of net assets increased by \$895,095 basically because long-term debt is being paid off faster than capital assets are being depreciated. The reconciliation for the Statement of Activities can be found on page 6.



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved Un-designated fund balance of the general fund was \$1,265,867. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 11% of total general fund expenditures and transfers out.

The fund balance of the District's general fund increased by \$196,859 during the current fiscal year. The district had budgeted for \$82,442 to be added to fund balance. The additional amount was a combination of additional revenue and conservative spending in several areas. Revenue that wasn't included in the budget was the amount collected for grants approved by the Diman-Wolf foundation. Functions that fell under budget included Instruction Basic-Elementary; Instruction Added Needs-Special Education; Guidance and Counseling; General Administration; and Central Support services. There weren't significant deviations in any one area; it was a combination of benefits, supply or contract lines that fell under. The largest would have been General Administration that was approximately \$30,000 under budget and was mostly related to legal fees that could go either way in any given year depending on district issues.

General Fund Budgetary Highlights

The initial budget for 2007/08 was a conservative estimate of student FTE's and state foundation allowance. Those two variables alone represented a majority of the deficit forecast of (\$153,635). Once the fall count was audited we experienced a 1% increase in blended student count and received \$116 more versus (\$50) less per student in state foundation allowance. This allowed the district to restore 6% in building budgets, add back in a 4th grade teacher, employ additional para professionals and .5 FTE teacher for special education and transfer more to capital projects for future district maintenance needs.

Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2008 amounted to \$6,281,252 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment. Capital assets at fiscal year included the following:

Hart Public Schools' Capital Assets (Net of Depreciation)

	<u>2008</u>	<u>2007</u>
Land	\$ 118,307	\$ 118,307
Construction in progress	-	52,013
Land improvements	468,552	540,637
Buildings and equipment	5,257,799	5,118,956
Equipment and furniture	436,594	397,262
Total	\$ 6,281,252	\$ 6,227,175

Additional information on the District's capital assets can be found in Note D on page 18 of this report.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$4,877,234.

The District's total debt decreased by \$516,078 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note G on pages 21-22 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008/09 fiscal year:

- General Fund: As in prior years the state's spiraling economy, declining enrollment, and unavoidable increases due to the cost of oil nationwide have effected our budgets. In 2008/09 we budgeted for a 1.8% decline in enrollment (approximately 25 students), and an increase of \$100 per student foundation allowance. District salaries and benefits increased by \$275,000 as well as other line item expenditures increasing by another \$100,000. With these increases building budgets were reduced by 6% and the Board decided to eliminate the transfer to the capital projects fund for one year. This brought the district to a negative spending of (106,893). This budget was approved by the Board of Education June 30, 2008.
- The School Service Funds: were budgeted on a continuation basis without any significant changes.
- Capital Projects: This begins the second year of sinking funds and with the decline in taxable values the district reduced the levy on sinking fund from .91 to .83 mills and increased debt from 1.58 to 1.66 mills for 2008/09. General fund will not be transferring dollars to capital projects for district wide maintenance and improvements in this fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager for Hart Public Schools
301 West Johnson Street
Hart, Michigan 49420

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 3, 2008

Board of Education
Hart Public Schools
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hart Public Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hart Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hart Public Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008, on our consideration of Hart Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BRICKLEY DELONG

Board of Education
November 3, 2008
Page 2

The management's discussion and analysis and budgetary comparison information on page 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hart Public Schools' basic financial statements. The combining nonmajor fund financial statements on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Hart Public Schools
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,130,204
Investments	1,215,706
Receivables	1,321
Due from other governmental units	1,668,780
Inventories	<u>35,769</u>
Total current assets	4,051,780
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	118,307
Depreciable	6,162,945
Note receivable	<u>175,158</u>
Total noncurrent assets	<u>6,456,410</u>
Total assets	10,508,190
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	1,136,585
Deferred revenue	164,767
Bonds and other obligations, due within one year	<u>551,753</u>
Total current liabilities	1,853,105
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>4,325,481</u>
Total liabilities	<u>6,178,586</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,647,432
Restricted	
Debt service	669,318
Capital projects	676,604
Unrestricted	<u>1,336,250</u>
Total net assets	<u>\$ 4,329,604</u>

The accompanying notes are an integral part of this statement.

Hart Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 7,238,442	\$ 109,878	\$ 1,712,942	\$ (5,415,622)
Support services	3,730,761	53,978	369,775	(3,307,008)
Community services	185,334	2,089	153,301	(29,944)
Food services	459,494	118,854	370,139	29,499
Athletics	335,335	47,873	-	(287,462)
Interest on long-term debt	232,730	-	-	(232,730)
Total governmental activities	<u>\$ 12,182,096</u>	<u>\$ 332,672</u>	<u>\$ 2,606,157</u>	(9,243,267)
General revenues				
Property taxes levied for				
General purposes				2,579,919
Debt service				479,705
Sinking fund				262,125
Grants and contributions not restricted to specific programs				6,515,775
Investment earnings				96,355
Gain on sale of fixed assets				201,056
Miscellaneous				<u>3,425</u>
Total general revenues				<u>10,138,360</u>
Change in net assets				895,093
Net assets at July 1, 2007				<u>3,434,511</u>
Net assets at June 30, 2008				<u>\$ 4,329,604</u>

The accompanying notes are an integral part of this statement.

Hart Public Schools
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	1999 Debt Service	Sinking Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 267,221	\$ 513,796	\$ 264,703	\$ 84,484	\$ 1,130,204
Investments	1,211,006	-	-	4,700	1,215,706
Receivables	1,321	-	-	-	1,321
Due from other governmental units	1,664,947	-	-	3,833	1,668,780
Due from other funds	3,266	497,384	-	720,813	1,221,463
Inventories	-	-	-	35,769	35,769
Total assets	<u>\$ 3,147,761</u>	<u>\$ 1,011,180</u>	<u>\$ 264,703</u>	<u>\$ 849,599</u>	<u>\$ 5,273,243</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 71,338	\$ -	\$ -	\$ 27,384	\$ 98,722
Accrued liabilities	969,976	-	-	28,048	998,024
Due to other funds	655,899	302,115	242,350	21,103	1,221,467
Deferred revenue	<u>164,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,767</u>
Total liabilities	1,861,980	302,115	242,350	76,535	2,482,980
Fund balances					
Reserved					
Inventories	-	-	-	35,769	35,769
Sinking Fund	-	-	22,353	-	22,353
Debt service	-	709,065	-	88	709,153
Unreserved					
Designated					
Performing arts	19,914	-	-	-	19,914
Undesignated					
General Fund	1,265,867	-	-	-	1,265,867
School service	-	-	-	60,603	60,603
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>676,604</u>	<u>676,604</u>
Total fund balances	<u>1,285,781</u>	<u>709,065</u>	<u>22,353</u>	<u>773,064</u>	<u>2,790,263</u>
Total liabilities and fund balances	<u>\$ 3,147,761</u>	<u>\$ 1,011,180</u>	<u>\$ 264,703</u>	<u>\$ 849,599</u>	<u>\$ 5,273,243</u>

The accompanying notes are an integral part of this statement.

Hart Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2008

Total fund balance—governmental funds		\$ 2,790,263
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Amounts reported for governmental activities in the Statement of Net Assets
 are different because:

Capital assets used in governmental activities are not current financial resources and
 are not reported in the governmental funds.

Cost of capital assets	\$ 12,659,567	
Accumulated depreciation	<u>(6,378,315)</u>	6,281,252

Other long-term note receivable in governmental activities is not reported in the
 governmental funds.

175,158

Accrued interest in governmental activities is not reported in the governmental funds.

(39,835)

Long-term obligations in governmental activities are not due and payable in the current
 period and are not reported in the governmental funds.

Bonds and notes payable	(4,779,269)	
Compensated absences	<u>(97,965)</u>	<u>(4,877,234)</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>4,329,604</u></u>
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The accompanying notes are an integral part of this statement.

Hart Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	1999 Debt Service	Sinking Fund	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 2,579,919	\$ 479,705	\$ 262,125	\$ -	\$ 3,321,749
Investment earnings	72,037	15,680	674	2,975	91,366
Fees and charges	-	-	-	157,151	157,151
Other	142,208	-	-	11,803	154,011
Total local sources	2,794,164	495,385	262,799	171,929	3,724,277
State sources	7,515,621	-	-	16,515	7,532,136
Federal revenues	1,141,862	-	-	353,624	1,495,486
Total revenues	11,451,647	495,385	262,799	542,068	12,751,899
EXPENDITURES					
Instruction	6,914,383	-	-	-	6,914,383
Support services	3,813,565	-	-	-	3,813,565
Community services	181,707	-	-	-	181,707
Food services	-	-	-	459,224	459,224
Athletics	-	-	-	319,790	319,790
Debt service					
Principal	-	465,000	-	-	465,000
Interest and other charges	-	227,511	-	-	227,511
Capital projects	-	-	240,446	153,070	393,516
Total expenditures	10,909,655	692,511	240,446	932,084	12,774,696
Excess (deficiency) of revenues over (under) expenditures	541,992	(197,126)	22,353	(390,016)	(22,797)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	122,596	-	-	-	122,596
Proceeds from sale of capital assets	-	-	-	202,509	202,509
Transfers in	-	-	-	486,915	486,915
Transfers out	(486,915)	-	-	-	(486,915)
Transfers to other governmental units and other transactions	19,186	-	-	-	19,186
Total other financing sources (uses)	(345,133)	-	-	689,424	344,291
Net change in fund balances	196,859	(197,126)	22,353	299,408	321,494
Fund balances at July 1, 2007	1,088,922	906,191	-	473,656	2,468,769
Fund balances at June 30, 2008	\$ 1,285,781	\$ 709,065	\$ 22,353	\$ 773,064	\$ 2,790,263

The accompanying notes are an integral part of this statement.

Hart Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	321,494
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (347,028)	
Capital outlay and bond issuance costs	<u>405,908</u>	58,880

Other long-term note and interest receivable in governmental activities is not reported in the governmental funds.		5,076
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Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(4,803)
--	--	---------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets (Deficit).		514,324
--	--	---------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(1,633)
--	--	---------

Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>1,755</u>
--	--	--------------

Change in net assets of governmental activities	\$	<u><u>895,093</u></u>
---	----	-----------------------

The accompanying notes are an integral part of this statement.

Hart Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>46,132</u>
LIABILITIES	
Deposits held for others	\$ <u>46,132</u>

The accompanying notes are an integral part of this statement.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hart Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The 1999 *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest of the 1999 refunding bonds.
- The Sinking Fund accounts for expenditures related to maintenance and replacement of capital assets.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.00
Debt service fund—Homestead and non-homestead	1.58
Sinking Fund—Homestead and non-homestead	.91

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	10-45 years
Buses and other vehicles	10 years
Furniture and other equipment	3-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations in support services for operation and maintenance by \$36,704 and pupil transportation services by \$93,297. These over expenditures were funded by local revenues in excess of budgeted amount and fund balance.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
MILAF external investment pool	\$ 1,211,006	1	AAAm	99.61%
Cash management fund	4,700	1	AAAm	0.39%
	<u>\$ 1,215,706</u>			<u>100%</u>

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the School District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$1,337,412 of the School District's bank balance of \$1,445,843 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 118,307	\$ -	\$ -	\$ 118,307
Construction in progress	<u>52,013</u>	<u>-</u>	<u>52,013</u>	<u>-</u>
Total capital assets, not being depreciated	170,320	-	52,013	118,307
Capital assets, being depreciated:				
Buildings and improvements	8,420,313	319,596	196,300	8,543,609
Land Improvements	1,475,900	-	-	1,475,900
Equipment	<u>2,411,136</u>	<u>138,325</u>	<u>27,710</u>	<u>2,521,751</u>
Total capital assets, being depreciated	12,307,349	457,921	224,010	12,541,260
Less accumulated depreciation:				
Building and improvements	3,301,357	175,950	191,497	3,285,810
Land Improvements	935,263	72,085	-	1,007,348
Equipment	<u>2,013,874</u>	<u>98,993</u>	<u>27,710</u>	<u>2,085,157</u>
Total accumulated depreciation	<u>6,250,494</u>	<u>347,028</u>	<u>219,207</u>	<u>6,378,315</u>
Total capital assets being depreciated, net	<u>6,056,855</u>	<u>110,893</u>	<u>4,803</u>	<u>6,162,945</u>
Capital assets, net	<u>\$ 6,227,175</u>	<u>\$ 110,893</u>	<u>\$ 56,816</u>	<u>\$ 6,281,252</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 219,888
Support	123,513
Community Services	<u>3,627</u>
	<u>\$ 347,028</u>

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Obligations

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Energy Bond Fund	\$ 3,266
1999 Debt Service Fund	General Fund	497,384
Food Service Fund	General Fund	71,244
Athletic Fund	General Fund	21,316
Athletic Fund	Capital Project Fund	5,752
Energy Bond Fund	General Fund	222
Durant Capital Project Fund	General Fund	65,439
Capital Project Fund	General Fund	290
Capital Project Fund	Middle School Capital Project Fund	12,085
Capital Project Fund	1999 Debt Service Fund	302,115
Capital Project Fund	Sinking Fund	242,350
		<u>\$ 1,221,463</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$272,282 to the Athletic Fund to finance operations, \$24,633 to fund Durant Fund capital projects and \$190,000 to the Equipment and Capital Project Fund to help finance future capital projects.

NOTE F—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
State aid anticipation note				
2007/2008 3.95% paid May 2008	\$ -	\$ 1,200,000	\$ 1,200,000	\$ -

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include two equipment loans.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 5,160,448	\$ -	\$ 465,000	\$ 4,695,448	\$ 485,000
Other obligations	133,145	-	49,325	83,820	49,820
Compensated absences	99,720	15,483	17,237	97,966	16,933
	<u>\$ 5,393,313</u>	<u>\$ 15,483</u>	<u>\$ 531,562</u>	<u>\$ 4,877,234</u>	<u>\$ 551,753</u>

General obligation bonds consist of the following:

1999 Refunding Bonds payable in annual installments of \$485,000 to \$650,000 plus semi-annual interest payments ranging from 3.55% to 4.80%; final payment due May 1, 2016

\$ 4,550,000

Durant obligations payable in annual installments ranging from \$17,297 to \$116,223 due November 2009 to 2013; including interest at approximately 4.76%. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations

145,448

Total general obligation bonds

4,695,448

School bus installment loan payable in quarterly payments of \$4,034 including interest at 3.2%; final payment June 2009

15,820

Portable classroom installment loan payable in annual installments of \$34,000 plus interest at 3.2%; final payment May 2010

68,000

Total other installment obligations

83,820

Compensated absences

97,966

Total long-term obligations

\$ 4,877,234

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, installment loans, and early retirement incentives outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 548,529	\$ 213,557	\$ 762,086
2010	623,423	219,371	842,794
2011	545,045	166,633	711,678
2012	565,761	142,332	708,093
2013	591,110	116,831	707,941
2014-2016	1,905,000	182,832	2,087,832
	<u>\$ 4,778,868</u>	<u>\$ 1,041,556</u>	<u>\$ 5,820,424</u>

NOTE H—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$1,067,900, \$1,033,800 and \$1,029,900, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE I—COMMITMENTS AND CONTINGENCIES

Commitments –The School District has lease agreements expiring at various dates through October 2011. Expense for the year ended June 30, 2008 was approximately \$64,800. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

Year ending June 30,	Amount
2009	\$ 107,000
2010	36,000
2011	<u>9,000</u>
	<u>\$ 152,000</u>

Contingencies –The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Hart Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 66 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE K—SUBSEQUENT EVENT

In September 2008, the School District received the proceeds of a \$900,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in March 2009 and bears interest at the rate of 3.1 percent per annum. The School District pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Hart Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,934,817	\$ 2,710,623	\$ 2,794,164	\$ 83,541
State sources	7,037,536	7,524,590	7,515,621	(8,969)
Federal sources	1,057,705	1,270,764	1,141,862	(128,902)
Incoming transfers and other transactions	94,000	111,028	122,596	11,568
Total revenues	11,124,058	11,617,005	11,574,243	(42,762)
EXPENDITURES				
Instruction				
Basic programs	5,271,739	5,227,865	5,187,449	40,416
Added needs	1,664,334	1,818,341	1,726,934	91,407
Support services				
Pupil	323,167	356,875	343,217	13,658
Instructional staff	229,806	234,480	195,146	39,334
General administration	294,477	311,865	281,826	30,039
School administration	700,094	708,150	716,839	(8,689)
Business	406,068	323,587	305,760	17,827
Operations and maintenance	1,097,043	1,113,533	1,150,237	(36,704)
Pupil transportation services	523,694	500,681	593,978	(93,297)
Other	203,699	255,078	226,562	28,516
Community services	206,251	208,788	181,707	27,081
Outgoing transfers and other transactions	357,321	475,320	467,729	7,591
Total expenditures	11,277,693	11,534,563	11,377,384	157,179
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(153,635)</u>	\$ <u>82,442</u>	196,859	\$ <u>114,417</u>
Fund balance at July 1, 2007			<u>1,088,922</u>	
Fund balance at June 30, 2008			<u>\$ 1,285,781</u>	

OTHER SUPPLEMENTARY INFORMATION

Hart Public Schools
Other Governmental Funds
COMBINING BALANCE SHEET
June 30, 2008

		School Service		Debt Service		Capital Projects		
	Combined	Food Service	Athletic	Energy Bond	Durant Debt	Middle School	Durant Projects	Capital Projects
ASSETS								
Cash and cash equivalents	\$ 84,484	\$ 12,790	\$ 1,100	\$ 3,132	\$ -	\$ 8,425	\$ 29,037	\$ 30,000
Investments	4,700	-	-	-	-	4,700	-	-
Due from other funds	720,813	71,244	27,068	222	-	-	65,439	556,840
Due from other governmental units	3,833	3,833	-	-	-	-	-	-
Inventories	35,769	35,769	-	-	-	-	-	-
	<u>\$ 849,599</u>	<u>\$ 123,636</u>	<u>\$ 28,168</u>	<u>\$ 3,354</u>	<u>\$ -</u>	<u>\$ 13,125</u>	<u>\$ 94,476</u>	<u>\$ 586,840</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 27,384	\$ -	\$ 27,384	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	28,048	28,048	-	-	-	-	-	-
Due to other funds	21,103	-	-	3,266	-	12,085	-	5,752
Deferred revenue	-	-	-	-	-	-	-	-
	<u>76,535</u>	<u>28,048</u>	<u>27,384</u>	<u>3,266</u>	<u>-</u>	<u>12,085</u>	<u>-</u>	<u>5,752</u>
Fund balances								
Reserved								
Inventories	35,769	35,769	-	-	-	-	-	-
Debt service	88	-	-	88	-	-	-	-
Unreserved								
School Service	60,603	59,819	784	-	-	-	-	-
Capital projects	676,604	-	-	-	-	1,040	94,476	581,088
	<u>773,064</u>	<u>95,588</u>	<u>784</u>	<u>88</u>	<u>-</u>	<u>1,040</u>	<u>94,476</u>	<u>581,088</u>
	<u>\$ 849,599</u>	<u>\$ 123,636</u>	<u>\$ 28,168</u>	<u>\$ 3,354</u>	<u>\$ -</u>	<u>\$ 13,125</u>	<u>\$ 94,476</u>	<u>\$ 586,840</u>

Hart Public Schools
Other Governmental Funds
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
Year ended June 30, 2008

		School Service		Debt Service		Capital Projects		
	Combined	Food service	Athletic	Energy Bond	Durant Debt	Middle School	Durant Projects	Capital Projects
REVENUES								
Local sources								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	2,975	571	407	88	-	257	1,652	-
Food sales and athletic admissions	157,151	117,693	39,458	-	-	-	-	-
Other	11,803	1,161	7,642	-	-	-	-	3,000
State sources	16,515	16,515	-	-	-	-	-	-
Federal sources	353,624	353,624	-	-	-	-	-	-
Total revenues	542,068	489,564	47,507	88	-	257	1,652	3,000
EXPENDITURES								
Food services	459,224	459,224	-	-	-	-	-	-
Athletics	319,790	-	319,790	-	-	-	-	-
Capital projects	153,070	-	-	-	-	-	-	153,070
	932,084	459,224	319,790	-	-	-	-	153,070
Excess revenues over (under) expenditures	(390,016)	30,340	(272,283)	88	-	257	1,652	(150,070)
OTHER FINANCING SOURCES (USES)								
Proceeds from sale of capital assets	202,509	-	-	-	-	-	-	202,509
Transfers in	486,915	-	272,282	-	-	-	24,633	190,000
Total other financing sources (uses)	689,424	-	272,282	-	-	-	24,633	392,509
Net change in fund balances	299,408	30,340	(1)	88	-	257	26,285	242,439
Fund balances at July 1, 2007	473,656	65,248	785	-	-	783	68,191	338,649
Fund balances at June 30, 2008	\$ 773,064	\$ 95,588	\$ 784	\$ 88	\$ -	\$ 1,040	\$ 94,476	\$ 581,088

Hart Public Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

CONTENTS

FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	5
---	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	7
---	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	10
--	----

SCHEDULE OF FINDINGS AND RESPONSES	11
--	----

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	14
--	----

CORRECTIVE ACTION PLAN	16
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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 3, 2008

Board of Education
Hart Public Schools
Hart, Michigan

We have audited the financial statements of Hart Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hart Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hart Public Schools' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

BRICKLEY DELONG

Board of Education
November 3, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Hart Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 3, 2008

Board of Education
Hart Public Schools
Hart, Michigan

Compliance

We have audited the compliance of Hart Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Hart Public Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hart Public Schools' management. Our responsibility is to express an opinion on Hart Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hart Public Schools' compliance with those requirements.

In our opinion, Hart Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as Finding 1 in the accompanying Schedule of Findings and Responses.

Board of Education
November 3, 2008
Page 2

Internal Control Over Compliance

The management of Hart Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hart Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hart Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Hart Public Schools' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Hart Public Schools' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Hart Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated November 3, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hart Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<i>U.S. Department of Education</i>								
Passed through Michigan Department of Education:								
Title I Part A	84.010							
071530 0607		\$ 399,965	\$ 163,812	\$ 163,812	\$ 311,297	\$ -	\$ 311,297	\$ -
081530 0708		532,690	-	352,937	-	474,528	474,528	121,591
		932,655	163,812	516,749	311,297	474,528	785,825	121,591
Migrant	84.011							
051830 2007		105,344	11,909	105,344	11,909	93,435	105,344	-
061890 0607		189,200	85,758	96,408	176,473	10,650	187,123	-
081830 2008		131,184	-	-	-	33,289	33,289	33,289
081890 0708		209,615	-	147,361	-	205,901	205,901	58,540
		635,343	97,667	349,113	188,382	343,275	531,657	91,829
Technology Literacy Challenge Grant	84.318							
064290 0607		3,630	2,345	2,345	3,630	-	3,630	-
074290 0607		4,106	3,250	3,250	3,250	-	3,250	-
084290 0708		5,029	-	781	-	4,307	4,307	3,526
		12,765	5,595	6,376	6,880	4,307	11,187	3,526
Improving Teacher Quality	84.367							
060520 0607		124,282	55,751	55,751	124,282	-	124,282	-
070520 0607		122,799	62,363	62,363	122,799	-	122,799	-
080520 0708		123,785	-	55,195	-	81,629	81,629	26,434
		370,866	118,114	173,309	247,081	81,629	328,710	26,434
Title VI Part B- Rural and Low Income	84.358B							
070660 0607		39,730	16,500	16,500	39,730	-	39,730	-
080660 0708		44,122	-	37,427	-	44,122	44,122	6,695
		83,852	16,500	53,927	39,730	44,122	83,852	6,695

Hart Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<i>U.S. Department of Education—Continued</i>								
Passed through Michigan Department of Education:								
Title V LEA Allocation -Innovative Programs	84.298							
070250 0607		\$ 2,932	\$ 170	\$ 170	\$ 851	\$ -	\$ 851	\$ -
080250 0708		5,074	-	2,754	-	2,462	2,462	(292)
		8,006	170	2,924	851	2,462	3,313	(292)
Title III Limited English Proficient	84.365A							
070580 0607		13,298	6,395	6,395	6,395	-	6,395	-
080580 0708		31,436	-	27,552	-	-	-	(27,552)
		44,734	6,395	33,947	6,395	-	6,395	(27,552)
Service Provider Self Review	84.027A							
070440 0607		4,000	1,480	1,480	1,480	-	1,480	-
Total passed through Michigan Department of Education		2,092,221	409,733	1,137,825	802,096	950,323	1,752,419	222,231
Programs passed through Muskegon Area Intermediate School District:								
Safe and Drug Free Schools and Communities	84.186							
072860 0506		7,133	2,816	2,816	7,133	-	7,133	-
072860 0708		7,396	-	-	-	7,259	7,259	7,259
Total passed through Muskegon Area Intermediate School District:		14,529	2,816	2,816	7,133	7,259	14,392	7,259
Total U.S. Department of Education		2,106,750	412,549	1,140,641	809,229	957,582	1,766,811	229,490

Hart Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	
					Prior year	Current year	Total		
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education:									
National School Lunch and Breakfast									
Entitlement commodities	10.550	\$ 25,484	\$ -	\$ 25,484	\$ -	\$ 25,484	\$ 25,484	\$ -	
Child Nutrition Cluster									
071970 Lunch—Breakfast	10.553	5,666	-	5,666	-	5,666	5,666	-	
081970 Lunch—Breakfast		51,314	-	51,314	-	51,314	51,314	-	
		56,980	-	56,980	-	56,980	56,980	-	
071950 All lunches	10.555	3,934	-	3,934	-	3,934	3,934	-	
081950 All lunches		29,693	-	29,693	-	29,693	29,693	-	
071960 Free and reduced		25,615	-	25,615	-	25,615	25,615	-	
081960 Free and reduced		194,394	-	194,394	-	194,394	194,394	-	
		253,636	-	253,636	-	253,636	253,636	-	
070900 Direct Funding-Summer Meals	10.559	15,521	-	15,521	-	15,521	15,521	-	
071900 Direct Funding-Summer Food		1,627	-	1,627	-	1,627	1,627	-	
		17,148	-	17,148	-	17,148	17,148	-	
Total Child Nutrition Cluster		327,764	-	327,764	-	327,764	327,764	-	
081920 Child Care Food	10.558	377	-	377	-	377	377	-	
Passed through Oceana County									
National Forest Reserve	10.665	1,747	-	1,747	-	1,747	1,747	-	
Total U.S. Department of Agriculture		355,372	-	355,372	-	355,372	355,372	-	

Hart Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<i>U.S. Department of Health and Human Services</i>								
Passed through Muskegon Area								
Intermediate School District:								
Head Start	93.600							
05CH8258 2007		\$ 185,384	\$ 27,783	\$ 103,593	\$ 109,574	\$ 75,810	\$ 185,384	\$ -
05CH8258 2008		<u>183,044</u>	<u>-</u>	<u>52,674</u>	<u>-</u>	<u>106,722</u>	<u>106,722</u>	<u>54,048</u>
Total U.S. Department of Health and Human Services		<u>368,428</u>	<u>27,783</u>	<u>156,267</u>	<u>109,574</u>	<u>182,532</u>	<u>292,106</u>	<u>54,048</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 2,830,550</u>	<u>\$ 440,332</u>	<u>\$ 1,652,280</u>	<u>\$ 918,803</u>	<u>\$ 1,495,486</u>	<u>\$ 2,414,289</u>	<u>\$ 283,538</u>

Hart Public Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditor Report (Form R7120) and CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008

Governmental funds financial statements

General Fund	\$ 1,141,862
Other governmental funds (includes Food Service Fund)	<u>353,624</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u><u>1,495,486</u></u>
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Hart Public Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Hart Public Schools.
2. *No* significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of Hart Public Schools were disclosed during the audit and as reported in Part B of this Schedule.
4. *No* significant deficiencies in internal control were disclosed by the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Hart Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553 and 10.555
<i>U.S. Department of Education</i> Title I	84.010
Title I Migrant	84.011

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hart Public Schools was determined to be a low-risk auditee.

Hart Public Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

NONE

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

U.S. Department of Education

Fiscal 2008 Finding No. 1: Title I Migrant

Pass-through entity: Michigan Department of Education

CFDA: 84.011

Award Numbers: 051830-2007, 061890-0607, 081830-2008, and
081890-0708

Award Year End: **September 30, 2008**

Specific Requirement: Migrant Special Tests – Priority for Service

Criteria: An LEA must maintain records to demonstrate a “Priority for Service” student received services per Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d)).

Condition: The School District did not maintain records to determine that priority students received services.

Cause: School District personnel were not fully informed on documentation requirements.

Questioned Costs: None

Context: Six of forty students tested lacked documentation.

Effect: Identified students did not received services.

Recommendation: Documentation should be maintained to demonstrate that Title I Migrant priority for service students are provided with services.

School District Response: The School District has developed procedures to document that priority for service students have received services.

SIGNIFICANT DEFICIENCIES

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 3, 2008

Michigan Department of Education
Lansing, Michigan

Hart Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated November 7, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Preparation of Financial Statements in Accordance with GAAP

Condition: The School District was not able to prepare financial statements in accordance with GAAP without reliance on its external auditors.

Recommendation: No recommendation was provided.

Current Status: *No* similar finding was reported as a result of the financial statement audit for the year ended June 30, 2008.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

Fiscal 2007 Finding No. 2: Title I CFDA: 84.010

Condition: The School District had unexpended Title I funds amounting to 23 percent of the grant award as of September 30, 2007, which exceeds the maximum.

Recommendation: The School District should have controls in place to identify all grant compliance requirements and ensure that the District is in compliance with them.

Current Status: The School District implemented this recommendation during the year ended June 30, 2008. *No* similar finding was reported during the single audit for the year ended June 30, 2008.

Michigan Department of Education
November 3, 2008
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Moss". The signature is written in a cursive style with a large, looping initial "P".

Peter Moss
Superintendent

CORRECTIVE ACTION PLAN

November 3, 2008

Michigan Department of Education
Lansing, Michigan

Hart Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statements audit.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to the financial statements audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

Fiscal 2008 Finding No. 1: Title I Migrant

Specific Requirement: Migrant Special Tests – Priority for Service

Recommendation: Documentation should be maintained to demonstrate that Title I Migrant priority for service students are provided with services.

School District Response: The School District agrees with this finding and has developed procedures to document that priority for service students have received services.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Peter Moss at (231) 873-6224.

Sincerely,

A handwritten signature in black ink that reads "Peter Moss". The signature is written in a cursive style with a large, looped "P" and "M".

Peter Moss
Superintendent